

ROUTING AND RECORD SHEET

SUBJECT: (Optional) Fred Ikle's Concerns About Intelligence
Community Soviet Cost Estimates

FROM: Herbert E. Meyer
Vice Chairman, NIC
7E62, Hqs.

EXTENSION

NO.

NIC# 00476-84

DATE

19 January 1984

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

Executive Reg.

19 JAN 1984

2.

3.

4.

DDCI has copy

5.

6.

DCI

20 Jan.

2 FEB

7.

8.

VC/NIC

9.

10.

11.

12.

13.

14.

15.



SECRET

NIC# 00476-84
19 January 1984

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence
Chairman, National Intelligence Council

FROM : Herbert E. Meyer
Vice Chairman, National Intelligence Council

SUBJECT : Fred Ikle's Concerns About Intelligence
Community Soviet Cost Estimates

1. Fred Ikle is concerned about the impact of public disclosure of updated CIA cost estimates that show a sharply declining cost trend for Soviet Strategic Intercontinental Forces since the mid-1970s. Last year CIA reported a 25% drop in strategic force dollar cost estimates from 1974-1981. CIA now estimates the decline between 1974 and 1982 to have been 40%.

2. The change from 25% to 40% is due almost entirely to revised assessments of the timing and status of Soviet intercontinental attack programs. The basis for these changes is outlined in the forthcoming version of NIE 11-3/8. (Highlights of the upcoming NIE, along with a chart of the CIA cost estimates, are included in the attached memo, which itself has triggered Ikle's interest in this subject.)

3. Much of the concern here stems from the old issue of what intelligence estimates of Soviet defense procurement do and do not reflect. As you know, these estimates are intended to show only what we judge it would have cost the US to produce in this country the weapons that the Soviet military obtained during a given year. The estimates are not intended to show anything else.

4. Among the problems caused by this necessarily narrow focus that relate specifically to Soviet strategic forces:

- The estimates do not include cost of research and development for these weapons -- a cost which inevitably would have been very high during this period.
- Because of the enormous cost of strategic intercontinental programs total expenditures for these systems tend to be cyclical, reflecting the growth and decline of individual programs.

SECRET

SECRET

- In fact, 1974 was the all-time high for intercontinental attack programs, and 1982 probably represents the bottoming out of the current cycle. Based on extensive R&D activity we would expect costs for intercontinental attack programs to increase substantially during the next few years.
- The new NIE 11-3/8 projects a number of systems which will reach IOC and enter production during 1984 and beyond. Thus, we are certain that the present downward trend will reverse.

5. Thus, it seems that the CIA chart is accurate -- but inadequate by itself as a measure of Soviet activity and therefore potentially misleading. It is merely a snapshot, and because of the precise moment of exposure it distorts reality.

6. It is also worth noting that despite the decline in cost for Soviet intercontinental programs, the level in 1982 was still higher than the US level: \$9.8 billion in 1982 dollars for the Soviet Union versus \$9.2 billion for the US in 1982 dollars.

7. It is my understanding that DIA estimates a decline in Soviet costs during the same period of about 25%, versus the 40% figure that CIA calculates. In fact, there are no major differences between the two agencies on the programs. Most of the gap is accounted for by honest disagreements on such issues as the number of refires, and of Typhoon submarines.

8. Lurking behind this immediate concern over strategic-forces cost estimates is the familiar queasiness over our efforts to cost Soviet defense activities. [] panel points out the need to be ferociously careful about how the various numbers -- especially the procurement numbers -- are used. But there is an additional factor that needs to be addressed. Our procurement estimates do not include costs for RDT&E. This was a manageable flaw during the early and mid-1970s, when new Soviet weapons were only incrementally better than their predecessors. But as the Soviets produce weapons whose technology is vastly superior to their predecessors, the RDT&E costs become higher and far more significant to the total. Thus it is possible that we are beginning to under-shoot true acquisition costs by wider and wider margins. To cite one example: we cost out the Alpha subs at \$900 million to \$1 billion for each of the first six boats (compared with an actual cost of \$500 million in 1982 for a Los Angeles class SSN). In effect, we have established a cost for the Alpha by substituting titanium for steel -- a methodology that surely understates the true acquisition costs. Apparently -- I am still checking into this -- we do not produce a distinct total dollar figure for the Alpha RDT&E costs. We just assume that we have picked up these costs in the general pool we develop for total Soviet military RDT&E.



Herbert E. Meyer

SECRET**OFFICE OF THE UNDER SECRETARY OF DEFENSE**

WASHINGTON, D.C. 20301

10 January 1984



RESEARCH AND
ENGINEERING
(SAA)

MEMORANDUM FOR USDR**SUBJECT: Soviet Strategic Force Cost Estimates****PURPOSE: "Heads Up" on Recent Reductions in NIE and CIA Estimates of Soviet Strategic Force Programs**

(S) We recently received from the CIA updated cost estimates that show a steadily declining cost trend for Soviet Strategic Intercontinental Forces since the mid-1970s. The new strategic force dollar cost estimates show a much more dramatic drop than those provided to us last year; the decline is now estimated to be about 40% between 1974 and 1982 in Soviet strategic Intercontinental force costs (see attached chart).

(S) CIA updates its estimate every year as the result of analysis during the past year and, in particular, the new NIE for Soviet strategic forces. This NIE will be published within the next few months. The following are some of the reductions and rescheduling that reduced estimated Soviet strategic program costs:

- o (S) SS-18 and SS-X-24 missile production costs in 1981 and 1982 were reduced approximately 50%.
- (\$) About a third of the SS-18 Mod 4s do not have new boosters; only the front ends were replaced.
- (\$) The modernized SS-18 program has been stretched out and is now expected after the mid-1980s, so these costs are no longer included in the early 80s.
- (\$) No production costs for the SS-X-24 are included. There have been problems in the SS-X-24 solid propellant ICBM test program, but the system is expected to be deployed in the mid-1980s; production facilities were built for a missile in this class which originally indicated late 1970s deployment.

SECRET

CLASSIFIED BY: OUSDRE/SAA
DECLASSIFIED ON: OADR

USDR: 22-0000

I-21214/84119

SECRET

2.

- o (S) TYPHOON deployment has been delayed and the procurement rate and force level is expected to be half of what was previously estimated.

(C) It should be noted that the costing methodology is based on output so a development problem which delays or reduces deployment or production has the effect of reducing the estimated cost, rather than increasing it.

Paul

Paul J. Berenson
Special Assistant
For Assessment

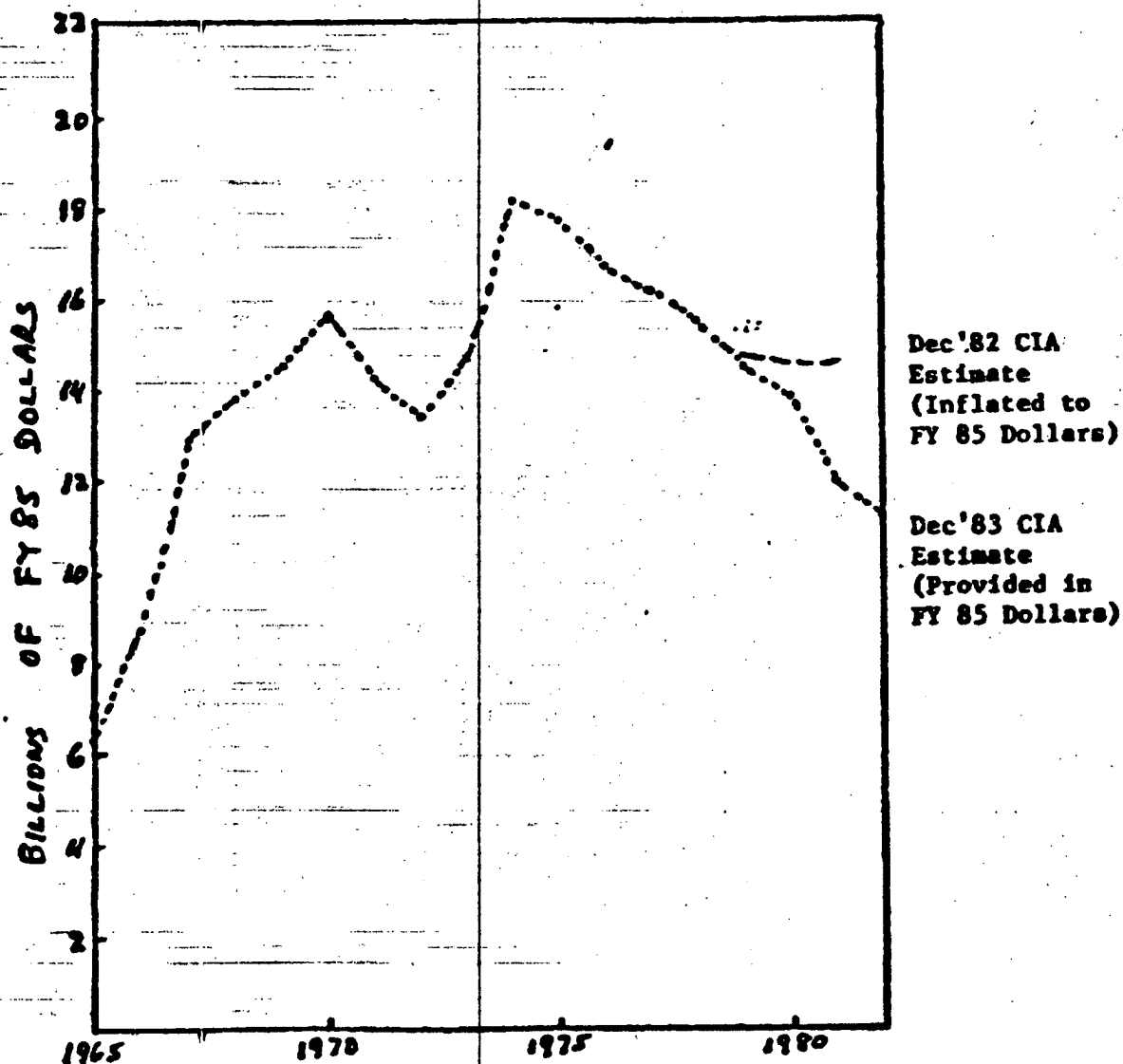
Attachment (S)

cc: USD(P)
PDUSD(R&E)
DUSDRE(S&TNF)
DUSD(P)
ASAF(R&D)
ASN(R&D)
Director, Net Assessment
Director, DIA
Chairman, National Intelligence Council
Director, Naval Intelligence
DCS, Intelligence (USAF)
Asst Vice Director for Research, DIA
Asst Dep Director (S&T), DIA
Asst Dep Director (Estimates), DIA
DIO Strategic Programs, DIA
NIO Strategic Programs, CIA
Director, SOVA, CIA

SECRET

SECRET

USSR
CIA Dollar Cost Estimates
Strategic Intercontinental Attack Mission
(Less RDT&E)



SECRET